



Department of Treasury
Internal Revenue Service

Notice	CP261
Notice date	September 5, 2011
Employer ID number	
To contact us	

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We've accepted your S Corporation election

You will be treated as an S Corporation starting

We've accepted your S Corporation election. Because you filed late, [REDACTED] is the earliest date that you can be treated as an S Corporation.

As a result, your tax year will end in [December], and you will be treated as an S Corporation starting [REDACTED].

What you need to do

If you agree that you filed late

You don't need to take any action.

Review this notice to understand some of your obligations and responsibilities as an S corporation.

If you think you filed on time

Send us a copy of your Form 2553, Election by a Small Business Corporation, with the IRS return received stamp, your Notice of Acceptance, or a certified mail receipt.

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Contact information

If your address has changed, please call [REDACTED] or visit www.irs.gov.

☐ Please check here if you've included any correspondence. Write your Employer ID number [REDACTED], the tax period [mm/dd/yyyy], and the form number [9999] on any correspondence.

INTERNAL REVENUE SERVICE

What you need to do —continued

If you did not file on time or can't prove you filed on time

Relief may be available. Visit <http://www.irs.gov/irb/2013-36/IRB/ar12.html> to review Revenue Procedure 2013-30 to see qualifying criteria.

If you qualify for relief, mail the following documentation to us:

1. A completed and signed Form 2553 with the words "Filed pursuant to Revenue Procedure 2013-30" written across the top of the form. Form 2553 must be signed by an authorized officer and by all shareholders.
2. A statement explaining why you weren't able to file Form 2553 by the original due date of the election.
3. Statements from all shareholders or former shareholders who owned stock between the date the election was to have become effective and the date the completed election was filed, that they have reported their income (on all affected returns), consistent with the S Corporation election for the year the election should've been made and for all subsequent years.

If you determine you **do not** qualify for relief under Rev. Proc. 2013-30, you may apply for a Private Letter Ruling (PLR). For more information, review IRB 2014-1.

Keep in mind

Payments to shareholder-employees for services rendered:

- You must determine a reasonable salary when a shareholder-employee of an S corporation provides services to the corporation.
- Payments to a shareholder-employee for services provided to an S corporation are wages and are subject to employment taxes.
- We may re-characterize distributions paid to a shareholder as salary if the distribution was paid in lieu of reasonable compensation (Revenue Ruling 74-44).

Keep in mind—**continued**

You should inform shareholders of their need to track stock and debt basis

A shareholder is responsible for calculating their stock and debt basis in the corporation. Please remind the shareholder of this requirement.

It is important for shareholders to know their stock and debt basis when the S corporation:

- allocates a loss and/or deduction item to the shareholder.
 - In order for a shareholder to claim this loss or deduction, they need to demonstrate that they have adequate stock and/or debt basis.
- makes a non-dividend distribution to the shareholder.
 - In order for a shareholder to determine if the distribution is non-taxable, they need to demonstrate that they have adequate stock basis.
- repays a reduced basis loan to the shareholder.
 - In order for a shareholder to determine if there is a gain on loan repayment, the shareholder must know their debt basis.

OR

- When the shareholder disposes of their S corporation stock.
 - A shareholder must know their stock basis in order to determine the gain or loss upon the disposition of their stock.

Additional information

- Visit www.irs.gov/cp261.
- For more information, see Form(s) 1120S, 2553, and Schedule K-1, and their instructions.
- For tax forms, instructions and publications, visit www.irs.gov or call 1-800-TAX-FORM (1-800-829-3676)
- Keep this notice for you records.

If you need assistance, please don't hesitate to contact us.
